

5. (a) Define the following terms indicated in bold in the text:

(i) wages (*paragraph 2*) *[2 marks]*

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that they are money earned.

2 *Precise definition* 2
An explanation that they are payments made to the factor of production labour.

(ii) anti-dumping (*paragraph 3*). *[2 marks]*

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that it is preventing the cheap selling of goods in another country.

2 *Precise definition* 2
An explanation that it is government legislation to prevent the selling of an imported good at a price below its cost of production.

- (b) With the help of an appropriate diagram, show how the proposed tariff would affect the price and level of bicycle imports. [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled diagram, showing the effect of a tariff on imported bicycles, <i>i.e.</i> an upward shift in the world supply curve for bicycles OR for providing an explanation of how a tariff will lead to an increase in the price and a fall in the level of imported bicycles. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled diagram, showing the effect of a tariff on imported bicycles, <i>i.e.</i> an upward shift in the world supply curve for bicycles and for providing an explanation of how a tariff will lead to an increase in the price and a fall in the level of imported bicycles. | 3-4 |

Candidates who incorrectly label diagrams cannot be rewarded with full marks. The use of P and Q on the axes is sufficient for a demand and supply diagram.

- (c) Describe the nature of the cross elasticity of demand between cars and bicycles suggested in paragraph ④. [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For explaining that cross elasticity of demand measures the responsiveness of the demand for one product to a change in the price of another OR for providing an explanation that the cross elasticity of demand between cars and bicycles should be positive, because they are substitutes for each other. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For explaining that cross elasticity of demand measures the responsiveness of the demand for one product to a change in the price of another and for providing an explanation that the cross elasticity of demand between cars and bicycles should be positive, because they are substitutes for each other. | 3-4 |

- (d) Using information from the text and your knowledge of economics, evaluate the use of protectionism in the Canadian bicycle industry. [8 marks]

Responses may include:

- discussion of “dumping”
- discussion of “unfair foreign trade” (*paragraph 1*)
- effects on employment (*paragraph 1*)
- effects on the price level (*paragraph 4*)
- impact on the environment (*paragraph 4*)
- discussion of efficiency in the bicycle industry (*paragraph 3*)
- retaliation by foreign governments (*paragraph 6*)
- flow-on effects on other manufacturers (*paragraph 5*)
- political implications (*paragraph 2*)
- global misallocation of resources
- welfare analysis (*paragraph 4*)
- any reasonable answer

Examiners should be aware that candidates may take a different approach, which if appropriate should be rewarded.

If there is no direct reference to the data, then candidates may not be rewarded beyond Level 2.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8
